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UNCLAS SECTION 01 OF 02 OTTAWA 000594

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E.O. 12958: N/A

TAGS: [PGOV](#) [PREL](#) [CA](#)

SUBJECT: THE POLITICS OF CANADA'S BUDGET: THE RATTLING OF SABRES

REFTEL: A. Ottawa 375

[1](#)B. 04 Ottawa 02837

[1](#)1. (SBU) SUMMARY: On February 23, the Martin Government tabled its long-awaited 2005-2006 Budget. The first "minority government" budget in more than twenty years provides for billions in spending across a broad spectrum of policy interests. In addressing some of the oft-professed key interests of the Conservative Party (tax cuts and defense spending) and many of the left-of-center New Democratic Party's social policies, the federal Liberals have virtually assured safe passage of their budget in Parliament, thereby protecting the minority government from the latent threat of a no-confidence vote. The fiscal implications of the budget will follow septel. END SUMMARY

[1](#)2. (SBU) On February 23, Finance Minister Ralph Goodale tabled the Martin Government's long-awaited 2005-2006 Budget, the first "minority government" budget exercise in more than twenty years. The 400-plus page document doles out billions for a broad spectrum of policy programs, from a substantial increase in the defense budget to tax credits for care givers. It also addresses at least some key interests of the official opposition Conservative party (99 of 308 seats) and the left-of-center New Democratic Party (19 seats), thereby virtually assuring safe passage in the House of Commons. This should extend the shelf life of the minority government and was probably carefully calculated by the Liberals to give the electorate a chance to sample the benefits of the new spending before an election is called. More importantly, in funding the pet projects of both the Conservatives and the NDP, the Liberals have marginalized their political archrivals in the critical province of Quebec, the anti-federalist Bloc Quebecois (54 seats).

[1](#)3. (SBU) The government adeptly orchestrated a dramatic run-up to the budget speech, featuring choreographed leaks and announcements that provided a fairly accurate advance picture of the document's content. Despite the fact that Min Fin did consult with them (as per Ref A, Ottawa 375) Opposition parties lamented the government's lack of consultation and warned that the Liberals should not take their votes for granted. Though post-Budget Day media coverage criticized the budget as a document designed to attract popular support through social program spending, the personal and corporate tax cuts also prompted Conservative Leader Stephen Harper to remark "I note...the sudden occurrence of a range of interesting Conservative priorities." National media also commented that the budget was an "election budget" that the Liberals could easily use as the basis of a campaign if there is an election in the near future. Most commentators agree that the document was designed to spread enough money around enough programs to ensure the Opposition would not have serious grounds for complaint, which became evident in the first few minutes of Conservative Leader Stephen Harper's official response.

[1](#)4. (U) Finance Minister Ralph Goodale announced spending in the following areas: Fiscal Management (savings through efficiency); Social Foundations (health care, etc); Productive Economy (personal and corporate tax cuts); Environment and Communities; and Global Responsibilities (defense spending and foreign aid). Details (covered in Septel) include; an increase in the amount basic personal exemption after five years, cuts in corporate tax rates and other business measures, a national child care initiative, tax relief for care-givers, money for greenhouse gas reduction, money for renewable and wind energy research, increased international aid money, and a boost for the Canadian armed forces. Given the varied list of spending areas in the budget, the Opposition is finding it difficult to field substantial complaints or protests beyond expected requests for more spending or more cuts and vague demands for specifics and details that are never included in the budget speech.

Conservative Party - Won't Oppose

[1](#)5. (SBU) Though Conservative Leader Stephen Harper invoked the traditional litany of Conservative complaints against the Government in his "rebuttal," he recognized that Canadians did not want an election and said the

Conservatives would not force one over the budget. It would be difficult for the Conservatives to take a more aggressive path in any case. By funding two of the Conservative Party's most cherished pursuits -- income and corporate tax cuts and an increase in the defense budget -- the Liberals cut into the Conservatives' prospective elections campaign plank. Harper vehemently denies media rumors that a back-room deal had been reached with the Liberals before the budget, and is quick to spin the document as a reaction to pressure placed on the government by the Conservative Party. (COMMENT: Conservative House Leader Jay Hill told us last week the party's polling numbers were no better now than at the time of the election and the Conservatives are looking to their very first policy convention in March to better define themselves and their programs for the electorate. END COMMENT.)

NDP - Hijacked Policies

16. (SBU) The small New Democratic Party stands closest to the Liberals on social issues and thus is deemed to constitute the greatest "threat" to the left wing of the Liberal Party. The Liberals, eager to be perceived as a more capable and distinct entity on such issues such as municipalities, child care, income tax cuts and environmental spending, featured these issues prominently in the budget. Like the Conservatives, the NDP would be hard pressed to lodge a complaint with any credibility. Moreover, with two other high-profile NDP priorities also in present in the House -- same-sex marriage legislation and the government's announcement that Canada will not join the U.S. missile defense program -- the NDP is arguably in the weakest position to posture for an election, even if it had the electoral muscle to do so. As it will not be able to support the "token" Conservative amendment, it may well claim responsibility for forcing the Liberals to support "its" social projects and vote to pass the budget.

Bloc Quebecois - Marginalized

17. (SBU) Bloc Quebecois MPs told us earlier that the Bloc would be looking for specific items in the budget, noting that their primary concern would be whether the budget would address the so-called "Fiscal Imbalance." The "imbalance" (ref B) is the perceived mismatch between federal and provincial constitutional responsibilities and their respective taxation powers. With 54 seats, the separatist Bloc has more weight than the NDP, but not enough to sway a vote without significant Conservative support. As the Conservatives have said they intend to support the budget, the Bloc will be stuck, unable to make their pitch to have the fiscal imbalance addressed. Bloc leader Gilles Duceppe denounced the budget as failing to take into consideration the needs of Quebec and, specifically, for not addressing the fiscal imbalance. The Bloc Quebecois, touted in the media as having reached its high water mark in the 2004 elections, remains very confident in its electoral chances and would not shy away from an early election.

18. (SBU) COMMENT: Just prior to the budget speech, some polls showed the Liberals with a slight rise to the critical "majority government" (40 percent) range for the first time since the June 2004 election. However, the pundits (and many of our contacts in Parliament) are not so sanguine and say that Canadians are not in the mood for a snap election. With this in mind, and taking into account Canada's eight-year run of budget surpluses, Liberal tacticians sense that their gambit of buying off the Conservatives and the NDP opposition will gain them time which they need as they look ahead to a potentially divisive leadership convention in early March, challenges to their decision not to participate in missile defense, and the ongoing same-sex marriage issue as it makes its way through Parliament. End Comment

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